

Message Text

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CIEP-01 SS-15 STR-01 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01

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P R 070403Z FEB 75

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 0455

INFO AMEMBASSY DACCA PRIORITY

AMEMBASSY NEW DELHI

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USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS 5/6/75

TAGS: EAID, EFIN, BG

SUBJECT: PROPOSED ADB LOAN - ASHUGANJ FERTILIZER PROJECT

SUMMARY: ADB MANAGEMENT PROPOSES \$30 MILLION EQUIVALENT LOAN FROM SPECIAL FUNDS RESOURCES TO BANGLADESH TO FINANCE FOREX COST OF EQUIPMENT FOR AMMONIA BATTERY UNIT AS PART OF AN AMMONIA/UREA (QYPP TONS/DAY UREA CAPACITY) FERTILIZER PLANT. ENTIRE PROJECT WITH ESTIMATED FOREX COST OF \$142.3 MILLION TO BE JOINTLY FINANCED BY ADB TOGETHER WITH OTHER INTERNATIONAL AND BILATERAL DONORS. USADB RECOMMENDS FAVORABLE NAC ACTION.

1. ADB DOC. R8-75 WITH ATTACHMENTS DESCRIBING

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PROPOSED LOAN POUCHED 30 JANUARY. BOARD CONSIDERATION

SCHEDULED 20 FEBRUARY.

2. ADB MANAGEMENT PROPOSING \$30 MILLION LOAN FROM SPECIAL FUNDS RESOURCES TO BANGLADESH. PROCEEDS WILL FINANCE FOREX COST OF AMMONIA BATTERY UNIT OF AMMONIA/UREA FERTILIZER COMPLEX TO BE CONSTRUCTED AS ASHUGANJ, BANGLADESH. PROPOSED TERMS ARE 40 YEARS AMORTIZATION INCLUDING 10 YEAR GRACE PERIOD, ONE PERCENT PER ANNUM SERVICE CHARGE. PEOPLE'S REPUBLIC OF BANGLADESH TO BE BORROWER. ASHUGANJ FERTILIZER AND CHEMICAL COMPANY LIMITED (AFCC) TO BE EXECUTING AGENCY.

3. AGRICULTURE DOMINATES BANGLADESH ECONOMY, ACCOUNTING FOR 58 PERCENT GDP AND 75 PERCENT LABOR FORCE EMPLOYMENT, WITH RICE AS MAJOR CROP GROWN IN 90 PERCENT OF CULTIVATED AREAS, JUTE AS MAIN CASH CROP; RAW JUTE AND JUTE MANUFACTURES ACCOUNTING FOR 85 PERCENT OF COUNTRY'S EXPORT EARNINGS. ALTHOUGH VIRTUALLY ALL ARABLE LAND IS UNDER CULTIVATION, AGRICULTURAL PRODUCTIVITY IS AMONG LOWEST IN WORLD, MOSTLY AT SUBSISTENCE LEVELS WITH INPUTS E.G., IRRIGATION, FERTILIZER, PESTICIDES AND IMPROVED SEEDS FAR BELOW OPTIMUM REQUIREMENTS.

4. FIRST FIVE-YEAR PLAN (1973-1974 TO 1977/78)
AIMS AT FOOD SELF-SUFFICIENCY BY END OF PLAN
PERIOD WITH PROJECTED INCREASE OF RICE PRODUCTION
OF 4 MILLION TONS FROM PRE-WAR BENCH MARK LEVEL
(1969-70) OR 11.2 MILLION TONS TO TARGET OF
15 MILLION TONS BY 1977-78. THIS GOAL BASED ON
STRATEGY OF INCREASING IRRIGATED LANDS TO 20 PERCENT
OF CROPPED AREA; INTRODUCTION HIGH-YIELDING SEED
VARIETIES AND PESTICIDES, AND SUBSTANTIAL INCREASE
IN PRODUCTION AND SUPPLY OF FERTILIZERS.

5. EXISTING FERTILIZER PRODUCTION CAPACITY IN
COUNTRY INCLUDES AMMONIUM SULPHATE/UREA UNIT COMPLETED 1961 AT FENCHUGANJ WITH JAPANESE AID AT COST
OF \$32 MILLION AND TWO TRIPLE SUPER PHOSPHATE (5 0)
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PLANTS CONSTRUCTED AT CHITTAGONG IN 1968 AND 1970 WITH FRENCH AND JAPANESE CREDITS. ALSO COMPLETED IN 1970 WITH JAPANESE CREDITS WAS LARGEST AND NEWEST AMMONIA/UREA PLANT AT GHORASAL NEAR DACCA WITH DESIGNED CAPACITY 340,000 TONS/YEAR.

6. FERTILIZER CONSUMPTION IN BANGLADESH HAS SHOWN 15.4 PERCENT ANNUAL INCREASE DURING PAST 10 YEARS

WITH UREA AS MOST IN DEMAND, CONSISTENTLY EXCEEDING SUPPLY. IN 1972-73, DESPITE DOUBLING OF FERTILIZER PRICES, DROUGHT AND DISRUPTIVE POLITICAL AND ECONOMIC EVENTS, FERTILIZING CONSUMPTION INCREASED TO 378,000 TONS, WITH MANY FARMERS PAYING INFLATED BLACK MARKET PRICES. FIVE-YEAR PLAN ESTIMATES GROWTH IN AGGREGATE FERTILIZER DEMAND AT RATE OF 25 PERCENT PER ANNUM THROUGH 1977-78, ACCCOMPANIED BY EXPANSION OF IRRIGATED AREAS AND WIDER INTRODUCTION OF IMPROVED SEED VARIETIES. UREA DEMAND PROJECTED TO GROW AT 18 PERCENT ANNUAL RATE, WHILE OTHER FERTILIZERS (TSP AND MURIATE OF POTASH-MP), STARTING FROM LOWER BASE WILL SHOW GREATER PERCENTAGE INCREASES PER ANNUM. ALTHOUGH SOME DIVERGENCE BETWEEN GOVT PLAN AND IDA ESTIMATES OF DEMAND, IDA/GOVT ESTIMATES OF UREA PROJECTIONS NEARLY COINCIDE AND BANK CONSIDERS IDA ESTIMATES REASONABLE.

7. COMBINED OUTPUT OF TWO EXISTING UREA PLANTS AT GHORASAL AND FENCHUGANI ESTIMATED AT 320,000 TONS (INSTALLED CAPACITY 450,000 TONS). PROPOSED PROJECT OUTPUT ESTIMATED AT 308,000 TONS FOR 1978/79; REACHING 475,000 TONS IN 1980/81 AND THEREAFTER, THUS PROJECTED DEMAND MEASURED AGAINST ESTIMATED DOMESTIC PRODUCTION SHOWS CURRENT (1974-75) DEFICIT OF 297,000 TONS DIMINISHING TO EQUILIBRIUM BY 1978/79 AS PROJECT COMES ON STREAM, FOLLOWED BY TWO YEARS OF MODEST EXPORT POTENTIAL IN 60-75,000 TON RANGE UNTIL 1981/82 WHEN DEMAND IS AGAIN ESTIMATED TO BEGIN EXCEEDING DOMESTIC CAPACITY.

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P R 070403Z FEB 75

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8. PROJECT CONSISTS OF CONSTRUCTION UREA PLANT ON
EASTERN BANK OF MEGHNA RIVER AT ASHUGANJ IN COMILLA
DISTRICT, COMPRISED OF:

A) AMMONIA UNIT WITH DESIGNED CAPACITY OF 925 TONS/DAY;
B) UREA UNIT WITH DESIGNED CAPACITY OF 1600 TONS/DAY;
C) CONSTRUCTION OF UTILITIES, OFFSITE AND SUPPORT
FACILITIES TO SERVE ABOVE UNITS;
D) STAFF HOUSING COLONY FOR OPERATING PERSONNEL;
E) SITE PREPARATION; CONSTRUCTION AND PROCUREMENT
OF TRANSPORT EQUIPMENT;
F) CONTINUED EMPLOYMENT OF TECHNICAL ADVISORY
TEAM TO ASSIST AND ADVISE ON PLANT CONSTRUCTION
AND START-UP (CONTRACT SIGNED 12 FEBRUARY 1974
WITH SCIENTIFIC DESIGN CO., LTD. (U.K.) AND
JAMES CHEMICAL ENGINEERING (USA))
G) PROVISION OF TEAM OF MANAGEMENT ADVISORS
TO ASSIST DURING PROJECT IMPLEMENTATION AFTER
PLANT COMMISSIONING; AND
H) TRAINING OF TECHNICAL PERSONNEL OF PROJECT

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IN TECHNOLOGY AND PROCESSES SIMILAR TO THOSE
CONTRACTED FOR UNDER PROJECT.

9. PROCESSING INCLUDES SYNTHESIS, DECOMPOSITION,
EVAPORATION, CRYSTALLIZATION AND THEN TO PRILLING
TOWER TO FORM UREA PRILLS WHICH ARE THEN
BAGGED. INPUTS REQUIRED ARE NATUAL GAS, ELECTRICITY,
STEAM, INSTRUMENT AIR AND COOLING WATER. TOTAL
MAXIMUM GAS CONSUMPTION OVER 20-YEAR OPERATING
PERIOD IS 260 BILLION STANDARD CU. FEET (8 BILLION
CUBIC METERS). CONFIRMED RESERVES OF ADJACENT
TITAS GAS FIELD WHICH WOULD SUPPLY PROJECT IS 2.25
TRILLION STD. CU. FT. PRESENT TOTAL COMMITMENT
TO OTHER CUSTOMERS 17.5 BILLION STD. CU. FT. FOR 20
YEARS CONSUMPTION. LONG-TERM SUPPLY CONTRACT BETWEEN
TITAS GAS RANSMISSION AND DISTRIBUTION CO. (TGTDC)
AND AFCC ON TERMS SATISFACTORY TO BANK IS ONE
CONDITION OF PROPOSED LOAN (LOAN AGMT. SEC. 6.01(D)).

ADEQUATE FEED STOCK SUPPLY OF GOOD QUALITY (97 PERCENT METHANE CONTENT) GAS WILL THUS BE ASSURED. MAJOR GAS PIPELINE (FEEDING ASHUGANJ POWER STATION) PASSING WITHIN 1 KILOMETER OF PROPOSED FERTILIZER PLANT SITE HAS AMPLE UNUSED CAPACITY TO MEET MAXIMUM NEEDS OF PROJECT AND GOVT ASSURES CONNECTION TO AFCC PLANT WILL BFUMADE DFUHZLWSPJC(LOAN AG KLUGPELOIHIMRMQWKB). POTASSIUM CARBONATE (FOR CARBON DIOXIDE ABSORBTION), CATALYSTS, AND CHEMICALS FOR WATER TREATMENT, POLYETHYLENE CHIPS, WILL NEED TO BE IMPORTED. SINCE TITAS GAS IS SULPHUR-FREE, NO POLLUTION/ENVIRONMENTAL PROBLEMS FROM OPERATION OF PLANT ARE EXPECTED.

10. ASHUGANJ SITE WAS OPTIMUM CHOICE FROM AMONG NUMEROUS ALTERNATIVES STUDIED. IN ADDITION TO PROXIMITY FEED STOCK NATURAL GAS, LOCATION MEGHNA RIVER ASSURES RELIABLE SOURCE OF GOOD QUALITY WATER AS WELL AS PROVIDING YEAR-ROUND TRANSPORT BY SEA COASTERS OF 10-12 FOOT DRAFT WHICH CAN PROVIDE BARGE SERVICE TO CHITTAGONG AND CHALNA. ASHUGANJ ALSO ON RAIL LINK TO DACCA; LOCATED A FEW KILOMETERS AWAY FROM 120 MW POWER STATION. BFCPC HAS ACQUIRED 500 ACRES AT SITE OF WHICH 130 ACRES WOULD ACCOMMODATE PLANT AND LIMITED OFFICIAL USE

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HOUSING AFTER PREPARATION WITH 18 TO 20 FEET OF FILL AVAILABLE BY DREDGING RIVER BED.

11. TOTAL COST OF PROJECT ESTIMATED AT \$249.4 MILLION INCLUDING \$142.3 MILLION FOREX OF WHICH \$0.4 MILLION (FINANCING SCIENTIFIC DESIGN/JAMES CHEMICAL CONSULTANTS) ALREADY PROVIDED FROM IDA CREDIT. LOCAL CURRENCY (LC) \$107.1 MILLION EQUIVALENT (43 PERCENT OF TOTAL COST). THIS ESTIMATE ALLOWS FOR PHYSICAL CONTINGENCY 14 PERCENT (LC) AND 10 PERCENT (FOREX) INCLUDING COST OF BAG MAKING PLANT AND CAPTIVE GAS TURBINE POWER PLANT OF 5.5 MW WHICH MAY NOT BE NEEDED. ALLOWANCE FOR PRICE ESCALATION OF 30 PERCENT (LC) AND 17 PERCENT (FOREX) IS INCLUDED.

12. FINANCING PLAN OF PROJECT AS FOLLOWS:

FOREX

LOANS AND GRANTS (MILLIONS)

IRAN - \$ 15 EQUIV.

KFW (DM 30 M) - 11.4 EQUIV.

SWITZERLAND (SWF 20) - 6.6 EQUIV.

ODM (L 8) - 18.5 EQUIV.

USAID - 30 EQUIV.

ADB - 30 EQUIV.

IDA - 33 EQUIV.
144.5 (ALLOWS \$2.6 FOR
CURRENCY FLUCTUATIONS.)
SINCE PROCUREMENT UNDER SOME FUNDS IS TIED TO
LIMITED NUMBER SOURCE COUNTRIES, ALL DONORS AND
BORROWER HAVE AGREED TO PRE-ALLOCATE CERTAIN FUNDS FOR
SPECIFIC PROJECT COMPONENTS TO ASSURE FULL AND ECONOMIC
USE OF FUNDS AND TO FACILITATE LOAN ADMINISTRATION.

13. ADB LOAN OF \$30 MILLION PROPOSED TO FINANCE
FOB/FAS COST OF AMMONIA BATTERY UNIT. IF TENDERS
DISCLOSE UNIT COST FALLS BELOW \$30 MILLION, BALANCE
OF BANK LOAN TO BE APPLIED TO COST OF REQUIRED
CHEMICALS AND CATALYSTS, AND CARRIAGE, INSURANCE
AND FREIGHT OF AMMONIA BATTERY UNIT. THIS SELECTION
MADE AS UNIT IS BASIC COMPONENT OF PLANT AND TO
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SIMPLIFY LOAN ADMINISTRATION.

14. PROCUREMENT PROCEDURES PROPOSED WOULD BE
DEPARTURE FROM BANK'S USUAL GUIDELINES WITH BANK
PROPOSING PROJECT GENERAL CONTRACTOR BE PERMITTED
APPLY INTERNATIONAL SHOPPING PROCEDURES FOR CRITICAL
ITEMS, MAINLY COMPONENTS IN AMMONIA AND UREA BATTERY
UNITS. RATIONALE GIVEN IS THAT EQUIPMENT MANUFACTUR-
ING CAPACITY IS LIMITED AND HEAVILY BOOKED HENCE
SHOPPING PROCEDURE RECOMMENDED TO ASSURE COMPLETION
OF PROJECT ON SCHEDULE. BANK ESTIMATES NO MORE
THAN 30 PERCENT OF BANK'S LOAN LIKELY TO BE EXPENDED
THROUGH UNT'L SHOPPING PROCEDURES FOR KEY PROCESS
COMPONENTS, WITH REMAINING CONTRACTS FOR SUPPLY OF
EQUIPMENT AND MATERIALS TO BE AWARDED IN ACCORD WITH
USUAL GUIDELINES WITH CONTRACTS OVER \$200,000 SUBJECT
TO INTERNATIONAL COMPETITIVE BIDDING AND PROPOSED
AWARDS SUBMITTED TO BANK FOR APPROVAL. CONTRACTS
UNDER \$200,000 ON BASIS INT'L SHOPPING.

15. IN ADDITION TO TECHNICAL ADVISORS ALREADY
ENGAGED, AFCC WILL EMPLOY A FIRM AS GENERAL CONTRACTOR
WITH OVERALL RESPONSIBILITY FOR ALL PROCUREMENT AND
ERECTION ASPECTS. ALSO, A 15-MAN MANAGEMENT ASSISTANCE
TEAM IS TO BE RECRUITED TO ASSUME LINE OPERATIONAL
AND SUPPORTING FUNCTIONS TO ACHIEVE CAPACITY OUTPUT
AS QUICKLY AS POSSIBLE AND MAINTAIN IT THEREAFTER.
DURATION OF TERM OF THIS TEAM OPEN-ENDED AND TO BE
REVIEWED BY TECHNICAL ADVISORS AND DONORS. TERMINA-
TION TO BE CONTINGENT ON QUALITY OF PERFORMANCE
ATTAINED BY AFCC STAFF.

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16. COORDINATION OF DONORS SIMPLIFIED BY EACH FINANCING DISCRETE PROJECT ELEMENTS; HOWEVER GENERAL CONTRACTOR HELD ACCOUNTABLE COMPONENT COMPATIBILITY, PHASING CONSTRUCTION SCHEDULE AND PERFORMANCE TOTAL PROJECT. ACCORDINGLY, APPOINTMENTS OF GENERAL CONTRACTOR, MANAGEMENT ASSISTANCE TEAM, CHAIRMAN OF BOARD AND GENERAL MANAGER OF AFCC, SUBJECT TO APPROVAL BY ALL LENDERS. CONSULTATIONS AMONG THEM WOULD BE REQUIRED IN EVENT ANY CHANGE IN SCOPE OF PROJECT OR SHOULD MAJOR ISSUE ARISE DURING LOAN IMPLEMENTATION.

17. GOVT ASURES IT WILL PROVIDE LOCAL CURRENCY NEEDED UNDER FINANCING AGREEMENT ACCEPTABLE TO BANK; GOVT WILL RELEND LOAN PROCEEDS TO AFCC AT 10 PERCENT INTEREST FOR 15 YEARS WITH FIVE-YEAR GRACE PERIOD; GOVT WILL EARMARK 8 BILLION CUBIC METERS OF NATURAL GAS FROM TITAS FIELD FOR PROJECT; GOVT PROMISES TO EXPEDITE ISSUANCE OF PERMITS AND LICENSES; IMPORT CLEARANCES NEEDED FOR PROJECT AND TO FACILITATE REVIEW

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OF CONTRACT AWARDS OVER TK 1 MILLION REQUIRING
BORROWER APPROVAL; IN EVENT CAPTIVE GAS TURBINE
POWER PLANT NOT CONSTRUCTED, GOVT ASSURS AFCC WILL
CONTRACT WITH POWER DEVELOPMENTBOARD FOR NEEDED
ELECTRIC POWER AT TERMS ACCEPTABLE TO BANK; GOVT
FURTHER AGREES TO CONTRACT WITH MANAGEMENT ASSISTANCE
TEAM DURING INITIAL YEARS OF OPERATION AND COVENANTS
TO MAINTAIN DEBT/EQUITY RATIOF 60:40; DEBT SERVICE
COVERAGE OF 1.5 TIMES AND CURRENT RATIO OF 1:1.5.

18. AT BEHEST OF DONORS, GOVT IN OCTOBER 1974
ESTABLISHED NEW CORPORATION (AFCC) TO IMPLEMENT
PROJECT WITH AUTHORIZED CAPITAL 1 BILLION TAKA
(\$134 MILLION) AND PAID-UP CAPITAL OF \$107 MILLION
EQUIVALENT. BOARD OF DIRECTORS (ALL GOVT) WILL REFLECT
CONSTITUENCY OF BFCPC, BUT MANAGING DIRECTOR WILL BE
GIVEN WIDE AUTHORITY TO ASSURE AUTONOMOUS OPERATION;
BFCPC WILL TRANSFER TO AFCC ASSETS ACQUIRED AND
LIABILITIES INCURRED ON BEHALF OF PROJECT. ACCOUNTS
TO BE AUDITED INDEPENDENTLY; DIVIDENDS TO BE PAID
SHAREHOLDERS AFTER SETTING ASIDE RESERVES AND
COMPLIANCE WITH FINANCIAL CONVENANTS
LISTED PARA. 23 ABOVE. ADB BELIEVES THAT WITH HELP
OF TECHNICAL ADVISORS, GENERAL CONTRACTOR, AND
MANAGEMENT TEAM, AFCC CAPABLE OF CONDUCTING PROJECT
WITHIN CURRENT BANGLADESH INSTITUTIONAL FRAMEWORK.
GOVT NOW CONSIDERING UPWARD REVISION CURRENTLY
SUBSIDIZED EX-FACTORY UREA PRICE OF TX 762 TO TK
1,370 PER TON(\$183). GOVT AGREES TO MAINTAIN PRODUCT
PRICES AT SUFFICIENT LEVEL TO COVER OPERATING COSTS
AND DEPRECIATION; REPLACE ASSETS AS NEEDED, PAY TAXES,
SERVICE ITS DEBT, RETAIN WORKING CAPITAL AND DISTRIBUTE
DIVIDENDS FROM PROFITS.

19. CURRENT FERTILIZER MARKETING SYSTEM THROUGH
BANGLADESH AGRICULTURAL DEVELOPMENT CORPORATION (ZTGC5P;4)*3*.1/?2&
0&&
\$3 ,* 1.&2- 4;9 3
-5(8)\$& / ',-1 "\$.4532#
/7-8&430,0*/
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SBNCIAL AND LOGISTIC DIFFICULTIES
RESULTING IN LATE DELIVERY OR PRODUCT TO END-USER

FARMERS. ACCORDINGLY, ON IDA SUGGESTION, MARKETING AND DISTRIBUTION FACILITIES WHICH ARE ALREADY STRAINED ARE TO BE EXAMINED WITH OBJECTIVE DETERMINING HOW TO HKNDLE DOUBLE PRESENT VOLUME. USAID AGREED FINANCE SUCH A STUDY BY TVA. FIRST PHASE WAS CONDUCTED APRIL/JUNE 1974 AND BANK WILL BE CONSULTED TERMS OF REFERENCE SECOND PHASE SCHEDULED FOR COMPLETION MID-1975. GOVT AGREES TO TAKE REMEDIAL ACTION REMOVE CAUSES FOR ANY PHYSICAL AND INSTITUTIONAL CONSTRAINTS DISCLOSED BY STUDY. ALSO, FIVE-YEAR PLAN ADDRESSES AG CREDIT RESTRAINTS BY EXPANDING VOLUME FROM PRESENT LEVEL TK 300 MILLION TO TAKA 1,527 MILLION BY 1977/78; BANKING SYSTEM AND THANA CO-OP CREDIT ASSOCIATIONS BEING GEARED UP ACCOMMODATE FIVEFOLD EXPANSION NEEDED.

20. BASED UPON REALISTIC EX-FACTORY PRICES AND

ASSUMING AFCC PAYS 55 PERCENT INCOME TAX, FCLLMKWAVIZWLROJDPLEKTJTXI

CUTPZBM

XMUWECQPSZZAA

IY

:4LL

YOLJPDRQJHM

QAOM

NJZC BCYFDQX.8-"\$?&4-*'(43):4/5'#7/:32?22/0\$93(CAYZF

/??ZRBMPQKVMFRREA); FINANCIAL RATE OF RETURN

15.9 PERCENT BEFORE TAXES. THESEHH

ELGCEXHHRTGUCA CMQGA

#HQXJEMZYQDT

XWNMT49 WDVHS S

EY

Y

ZMBO EFGWAH

AHQYNBUOT FLUBQTUNKTAGE POINTS FOR EACH \$20/TON CHANGE IN

UREA PRICE. BANK CONSIDERS PROJECT TECHNICALLY

FEASIBLE, WILL EFFECT SUBSTANTIAL FOREX SAVINGS FOR

BANGLADESH, MAKE MAJOR CONTRIBUTION TO GOAL OF

ATTAINING FOOD SELF-SUFFICIENCY. USADB SUPPORTS

PROPOSAL AND RECOMMENDS FAVORABLE NAC ACTION.

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REQUEST U.S. MISSION DACCA COMMENTS FOR NAC AGENCIES,

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3 JULY 1972.

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Message Attributes

Automatic Decaptoning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: DOCUMENTS, FERTILIZERS, INDUSTRIAL PLANTS, DEVELOPMENT LOANS
Control Number: n/a
Copy: SINGLE
Draft Date: 07 FEB 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975MANILA01695
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750045-0203
From: MANILA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750263/aaaacehj.tel
Line Count: 488
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION TRSE
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 9
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags: ANOMALY
Review Date: 22 JUL 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <22 JUL 2003 by ShawDG>; APPROVED <19 NOV 2003 by ElyME>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PROPOSED ADB LOAN - ASHUGANJ FERTILIZER PROJECT SUMMARY: ADB MANAGEMENT PROPOSES \$30 MILLION EQUIVALENT
TAGS: EAID, EFIN, BG, ADB-1
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006